



Houston & Texas News

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School board weighs ties to vendor

HP drops local tech company amid probe in Dallas, but HISD still eyes low bid

By ERICKA MELLON

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The Houston school board could decide this week whether to keep doing business with a local technology company that has lost the confidence of a major computer supplier amid an ongoing ethics probe in Dallas.

Houston-based Analytical Computer Services already has passed the first hurdle to upgrade HISD campus technology in coming years — winning the district administration's nod for its low prices on wiring, repairs and Hewlett-Packard supplies.

But the school board still must approve the deal, which has been in limbo since Hewlett-Packard told the district last month it was banning Analytical Computer Services and another Houston-based entity, Micro System Engineering, from selling its computers, servers and other products.

HP's letter to the Houston Independent School District did not offer a reason for severing ties. But the decision raises questions about Analytical's ability to continue its decade-long relationship with the school system, and it could end up costing the district money.

In addition to Analytical, five other companies have won the district's initial approval to vie for \$69.4 million worth of technology projects. So the district could turn to some of the other companies for HP products, but Analytical offered the lowest price on most, according to bid documents.

And while Analytical would be able to perform general repair work without HP's approval, the school board must decide whether it wants to give the company that opportunity. The board, as of last week, planned to vote on the technology package Thursday.

Frank H. Trifilio, the president and chief executive officer of Analytical, said HP representatives told him the problem was his connection to Micro System Enterprises, formerly called Micro System Engineering. He said an e-mail from Hewlett-Packard associates accused him of violating HP's ethics rules.

"They quote some business code of ethics that they have that includes bribery and kickbacks, and I've never done any of that," Trifilio said in an interview.

Trifilio's company and Micro System Enterprises were both part of a federal technology deal in the Dallas Independent School District that sparked a public-corruption investigation by the FBI and the U.S. Attorney's Office.

Dallas troubles

The multimillion-dollar contract, which involved 12 companies, drew suspicion in 2005 amid reports that a Dallas schools administrator accepted many free trips on a luxury boat owned by

Micro System, which was the lead vendor in the deal.

The administrator resigned from the district. Frankie Wong, the president and chief executive officer of Micro System, denied any alleged wrongdoing in an e-mail to the Houston Chronicle.

Trifilio said he is not a target of the federal probe and that he recently testified before a Dallas grand jury about his dealings with Wong.

Both men have long relationships with HISD, and they've individually contributed thousands of dollars to school board races in both cities.

In an interview, Trifilio downplayed his dealings with Wong, but confirmed what state business records show: Although the two men run competing companies, Analytical and Micro System, they formed an arrangement in 2004 and 2005 that gave Wong some control over rival Analytical.

Documents from the Secretary of State's Office reveal that at one point both Wong and Trifilio were managers of WT Technology Investments L.L.C., a company intimately tied to Analytical. In business lingo, WT was Analytical's general partner.

Close business ties

Put simply, in his role as manager, Wong would get a vote on any major changes to Analytical, according to Trifilio's chief financial officer, John Jancar. But Wong's involvement ended up being on paper only, Jancar said, and Trifilio filed papers with the state to end the relationship in September 2005.

"It meant nothing in terms of his involvement in day-to-day management of our company," Jancar said.

Wong said, via e-mail, that he "never had any ownership interest in ACS."

Wong and Trifilio are co-owners in other businesses, however. According to online state records, in May 2006, they started Ascend GP LLC to manage school technology projects. The two men also are directors of Houston-based Acclaim Services Corp., records show.

Trifilio said Acclaim has been inactive for a while, and he is trying to end his relationship with Ascend.

During his grand jury testimony in Dallas, Trifilio said he tried to separate himself from Wong. He said he had never entertained customers on Wong's boat, nor had he ever seen it.

"I don't have a boat, by the way," Trifilio said. "I get seasick."

The Houston school board postponed voting on the Analytical Computer Services bid at its Dec. 14 meeting. That was the same day the district received the letter from HP.

But even before then, the name of Trifilio's company caught the attention of some board members, who recognized it from the Dallas scandal.

"That name, everybody knows it," said HISD trustee Greg Meyers. "It's probably human nature. You start questioning — who were the other bidders? — and it's healthy to start questioning to make sure we do have a process that we trust when it comes to the bid process."

Defending support

Terry Abbott, a spokesman for HISD, last week defended the administration's decision to support

Analytical Computer Services.

"There hasn't been any alleged impropriety here at all — none, zero," he said. "It doesn't connect to Houston in any way."

Analytical Computer Services has been doing business with HISD, the state's largest district, for about a decade, Trifilio said. The upcoming board vote would allow that association to continue through at least June 2008.

The company was one of several that recently submitted proposals, through the district's competitive bidding process, to supply technology equipment and perform repairs. Six companies have earned initial approval from the district's administration, but the school board has yet to sign off.

Besides Analytical, the successful bidders are NetSync Network Solutions, Tech Depot, xNet Systems, AT&T DataComm and Troxell Communications.

The school board's approval would not guarantee business to any of the companies but would make them eligible vendors. Much of the money for the projects would come through the federal E-rate technology program.

Board donations

Several HISD board members have benefited from Analytical's desire to work for the district; none has been accused of illegal activity. According to campaign finance documents filed since 2003, Trifilio has donated \$5,000 to Kevin Hoffman, \$2,000 each to Manuel Rodríguez and Larry Marshall, and \$1,000 to Diana Dávila.

Trifilio said he donated money to the board members out of "like" for them.

"They have no power to give me contracts," he said.

While board members have final approval over contracts, a committee of district employees is charged with formally evaluating vendors' proposals and making recommendations to the board.

Dávila, the board president, said she was not concerned about awarding a contract to Analytical, though she wanted to confirm the company was no longer connected to Wong.

"Are they really separate?" she asked.

HP spokesman Mark Lewis would not disclose why the company is refusing to do business with Analytical and Micro System, but he said the termination, effective Friday, is not unusual.

Lewis also said HISD should have no problem finding another vendor to sell HP products. The company does not typically sell directly to school districts, but it has about 20,000 authorized resellers in the country, he said.

ericka.mellon@chron.com



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Attachment C



Invoice Number

8-797-01837

Invoice Date

Apr 12, 2007

Account Number

1813-0291-7

Page

4 of 4

FedEx Express Shipment Detail By Payor Type (Original)

Dropped off: Apr 05, 2007

Cust. Ref.: NO REFERENCE INFORMATION

Ref. #2:

Payor: Shipper

Ref. #3:

- The Earned Discount for this ship date has been calculated based on a revenue threshold of \$379.58
- Fuel Surcharge - FedEx has applied a fuel surcharge of 10.00% to this shipment
- Distance Based Pricing, Zone 6

INET

Tracking ID 791664910967
Service Type FedEx Standard Overnight
Package Type FedEx Envelope
Zone 06
Packages 1
Rated Weight N/A
Delivered Apr 06, 2007 09:12
Svc Area A1
Signed by .AWILLIAMS
FedEx Use 000000000/0000244/_

Sender

Carrie Shelton
Analytical Computer Services
4550 Post Oak Place
HOUSTON TX 77027 US

Recipient

Mr. Mel Blackwell
Vice President, Schools and Lib
WASHINGTON DC 20036 US

Transportation Charge

18.15

Earned Discount

-1.82

Fuel Surcharge

1.54

Automation Bonus Discount

-0.91

Total Charge

USD

\$16.96

Dropped off: Apr 05, 2007

Cust. Ref.: NO REFERENCE INFORMATION

Ref. #2:

Payor: Shipper

Ref. #3:

- The Earned Discount for this ship date has been calculated based on a revenue threshold of \$379.58
- Fuel Surcharge - FedEx has applied a fuel surcharge of 10.00% to this shipment
- Business Closed or Adult Recipient Unavailable - Delivery Not Completed
- Distance Based Pricing, Zone 6
- 1st attempt Apr 06, 2007 at 12:11 PM.

INET

Tracking ID 798145982858
Service Type FedEx Standard Overnight
Package Type FedEx Envelope
Zone 06
Packages 1
Rated Weight N/A
Delivered Apr 09, 2007 11:16
Svc Area A2
Signed by V.FRANKLIN
FedEx Use 000000000/0000244/_

Sender

Carrie Shelton
Analytical Computer Services
4550 Post Oak Place
HOUSTON TX 77027 US

Recipient

Ken Guest
SVP, Bus Div.
HORSHAM PA 19044 US

Transportation Charge

18.15

Automation Bonus Discount

-0.91

Earned Discount

-1.82

Fuel Surcharge

1.54

Total Charge

USD

\$16.96

Shipper Subtotal

USD

\$33.92

Total FedEx Express

USD

\$33.92

From: Origin ID: WHTA (713)881-0039
Carrie Shallen
Analytical Computer Services
4550 Post Oak Place
Suite 119
Houston, TX 77027



Ship Date: 05APR07
ActWgt: 1 LB
System#: 9590517/NET2600
Account#: S *****

Delivery Address Bar Code



SHIP TO: (202)776-0200
Mr. Mel Blackwell

BILL SENDER

Vice President, Schools an Lib Div
2000 L Street Northwest, Suite 200
Washington, DC 20036

Ref #
Invoice #
PO #
Dept #



STANDARD OVERNIGHT

FRI

TRK# 7916 6491 0967

FORM
0201Deliver By:
06APR07

IAD

A1

20036 -DC-US

XC JPNA



Shipping Label: Your shipment is complete

1. Use the 'Print' feature from your browser to send this page to your laser or inkjet printer.
2. Fold the printed page along the horizontal line.
3. Place label in shipping pouch and affix it to your shipment so that the barcode portion of the label can be read and scanned.

Warning: Use only the printed original label for shipping. Using a photocopy of this label for shipping purposes is fraudulent and could result in additional billing charges, along with the cancellation of your FedEx account number.

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April 5, 2007

Mr. Mel Blackwell
Vice President, Schools and Libraries Division
USAC
2000 L Street Northwest, Suite 200
Washington D.C. 20036

Dear Mel:

I am in receipt of your letter dated March 19, 2007 regarding the participation of *Analytical Computer Services (ACS)* and the *Houston Independent School District (HISD)* in the Schools and Libraries Program. Let me attempt to address your concerns and hopefully clear up any misunderstandings you may have from the Houston Chronicle story.

You identify four areas of concern addressed in the newspaper article.

I. ACS has close ties to Micro Systems Engineering (MSE) and MSE is being investigated by the FBI and the US Attorney General.

My company's relationship with MSE originated with both companies being involved as minority vendors with HISD. We did work closely as participating suppliers to the school district and it became a situation where, even though we were independent companies, we depended on each other to keep the HISD business. Neither of us alone was large enough to do all that was required on our own.

Here is a quick chronology of the ACS/MSE relationship:

- ACS has been associated with MSE on projects for HISD in that we were both approved minority vendors to that account.
- ACS is still an approved vendor to HISD even though MSE is no longer approved (as of 7-1-06).
- ACS was a participating vendor to Dallas Independent School District under MSE's awarded contract but ACS was not involved in the award process.
- ACS is not under investigation for any alleged misconduct or wrongdoing in Dallas or elsewhere and has never been under investigation in our company's history.
- ACS has not been named in any legal investigation regarding events in Dallas and will not be subject to indictment.
- ACS has served as a witness in a Grand Jury investigation of Frankie Wong and MSE but is not a subject of that investigation.
- ACS operations and financial reporting are accounted for under the legal name of *Southwest Analytical Computer Services, Ltd.*

- ACS and MSE both were part of the Acclaim group along with several other companies.
- ACS is an independent organization and is not responsible for the actions of Frankie Wong or any business conduct of MSE.

MSE was under audit by Hewlett Packard and HP's auditors were under the erroneous assumption that both ACS and MSE were the same company. Whatever misconduct they alleged occurred by MSE was "carried over" to ACS because of HP's belief that we were one and the same. The true fact is that ACS was *never* audited by HP and there were no accusations that ACS had done anything wrong other than to have worked on the same projects with MSE.

The FBI and Attorney General's investigations are not targeting me or my company. I did appear as a witness before the federal Grand Jury but the prosecutor gave no indication that I was a target of the investigation. All questions focused on Frankie Wong and MSE in relation to the Dallas Independent School District. ACS was only a small supplier of HP product in this project.

II. An HISD board member is quoted as saying that the HP actions raise questions regarding the competitive bid process and the MSE/ACS relationship.

Similar to the false conclusions drawn by HP, the nature of the ACS/MSE relationship was completely misunderstood by the person quoted above. I welcome further comments from HISD regarding their stringent monitoring of the procurement and bid process. HISD is subject to its own internal audit group and have also been audited by the SLD. To my knowledge, there have never been any irregularities discovered as a result of these audit reviews. As further proof, the HISD Board awarded my company an additional year of erate business after the situation with HP had been made public.

III. I as President of ACS donated money to the campaigns of HISD board members.

This statement is one that is accurate and correct. I have made campaign contributions to several individual board members. These campaign contributions are of public record and are in compliance with all applicable legal guidelines. They do not violate any procurement rule and board members do not participate in any procurement process. I support minority candidates out of personal conviction that they are qualified for leadership positions.

IV. ACS violated Hewlett Packard's ethics rules.

As mentioned in the first section, ACS was never audited by HP. HP erroneously concluded from their audit of MSE that we were closely related and thus needed to suffer the same fate as MSE. But in fact, these are two separate companies with two HP reseller ID numbers. I met with the HP lawyers and believe they fully understood that ACS was never part of MSE. Unfortunately, the HP audit had already concluded and issued findings that led to our de-authorization. It is extremely unfortunate that HP drew

conclusions from an MSE investigation without talking directly to ACS. When HP terminated our reseller agreement, it was not for a violation by ACS of HP's ethics rules. In fact, as the Houston Chronicle article makes clear, HP did not offer a specific reason for severing its ties with ACS. I subsequently was forced for financial reasons to sell my company to another HP authorized reseller.

You also asked for a summary of all ACS contracts between ACS and HISD for funding years 2001-2007. Here is an analysis:

FY 2001 –

- Project 00-11-9: Network Hardware Contract between HISD and Reg. IV ESC Co-Op; ACS provided some Network Equipment to HISD under this contract
- Contract Status: Closed

FY 2002 –

- Project 02-01-07: Network Hardware Development Contract between HISD and Reg. IV ESC Co-Op; ACS provided network equipment under this contract; when the ESC Purchasing Cooperative ceased doing E-Rate business, ACS honored the contract and provided the remaining hardware required by the School District that year.
- Contract Status: Closed
- Project 02-01-10: Maintenance for Network Hardware Contract between HISD and Reg. IV ESC Co-Op; ACS provided some of the annual maintenance for Network Hardware under this contract; when the ESC Purchasing Cooperative ceased doing E-Rate business, ACS honored the contract and provided the remaining maintenance required by the School District that year.
- Contract Status: Closed and complete

FY 2003 –

- Project 02-12-04: Network Cabling Contract between HISD and ACS
- Contract Status: Active; Work Complete; Invoicing outstanding; Contract has been acquired by new company - Lakehills
- Project 02-12-07: Network Hardware Development Contract between HISD and ACS
- Contract Status: Active; Work Complete; Invoicing outstanding; Contract has been acquired by new company - Lakehills
- Project 02-12-10: Network Maintenance Contract between HISD and ACS
- Contract Status: Closed; Invoicing outstanding; Contract has been acquired by new company - Lakehills

FY 2004 –

- Project 03-11-05: Network Cabling Contract between HISD and ACS
- Contract Status: Active; Work Ongoing; Contract has been acquired by new company - Lakehills
- Project 03-11-03: Network Hardware Development Contract between HISD and ACS
- Contract Status: Active; Work Ongoing; Contract has been acquired by new company - Lakehills
- Project 03-11-04: Network Maintenance Contract between HISD and ACS
- Contract Status: Active; Work Ongoing; Contract has been acquired by new company - Lakehills

FY 2005 –

- Project 04-09-10: Network Maintenance Contract between HISD and ACS (Partial Project Award)
- Contract Status: Active; Work Complete; Contract has been acquired by new company – Lakehills
- Project 04-09-14: Network Hardware; Contract between HISD and ACS (Partial Project Award)
- Contract Status: Active; Work Ongoing; Contract has been acquired by new company - Lakehills
- Project 04-09-15: Network Cabling; Contract between HISD and ACS (Partial Project Award)
- Contract Status: Active; Work Ongoing; Contract has been acquired by new company - Lakehills

FY 2006 –

- Project 05-08-08: Network Maintenance Contract between HISD and ACS (Partial Project Award)
- Contract Status: Active; Work Ongoing; Contract has been acquired by new company – Lakehills
- Project 05-08-09: Network Cabling; Contract between HISD and ACS (Partial Project Award)
- Contract Status: Active; Work Ongoing; Contract has been acquired by new company – Lakehills
- Project 05-08-10: Network Hardware; Contract between HISD and ACS (Partial Project Award)

- Contract Status: Active; Work Ongoing; Contract has been acquired by new company - Lakehills

FY 2007 –

- Project 06-08-12: Advanced Network Maintenance Contract between HISD and Lakehills (Partial Project Award)
- Contract Status: Awarded; Work Not Yet Begun
- Project 06-08-13: Basic Network Hardware Maintenance Contract between HISD and Lakehills (Partial Project Award)
- Contract Status: Awarded; Work Not Yet Begun
- Project 06-08-14: Network Cabling; Contract between HISD and Lakehills
- Contract Status: Awarded; Work Not Yet Begun
- Project 06-08-11: Network Hardware; Contract between HISD and Lakehills (Partial Project Award)
- Contract Status: Awarded; Work Not Yet Begun

If you need more information regarding the detail pertaining to any of the contracts, I am certain that the school district will furnish it upon request. HISD is most likely working toward answering any questions presented in the letter sent to them.

I firmly believe that all funding requests associated with the HISD awards are in compliance with program rules and requirements with no variances from the rules. Prior audit reviews by both HISD and USAC have reaffirmed this to be the case.

Mel, I hope that I have addressed all of your concerns resulting from recent publicity concerning HP's course of action with ACS. I have worked very hard over the years to conduct my business according to high ethical standards and will do whatever it takes to clear my name and my business from unfair allegations.

I appreciate your understanding and cooperation.

Sincerely,

Frank Trifilio

Attachment D

September 27, 2007

VIA FEDERAL EXPRESS DELIVERY

Mr. John Jancar
Chief Financial Officer
Lakehills Consulting, LP
4550 Post Oak Place, Suite 119
Houston, TX 77027

Re: Participation of Lakehills Consulting and Analytical Computer Services in the
Schools and Libraries Program

Dear Mr. Jancar:

You have inquired about payment for invoices from Lakehills Consulting, LP, (Lakehills) that are currently pending with the Universal Service Administrative Company (USAC). These invoices are related to services provided to the Houston Independent School District (HISD). USAC is holding these payments to protect the integrity of the Universal Service Fund (USF) from possible waste, fraud and abuse, pursuant to USAC's authority to administer the Schools and Libraries program consistent with Federal Communications Commission (FCC) rules. As set forth more fully below, USAC understands that Frankie Wong of Micro Systems Enterprises (MSE) and Frank Trifilio of Analytical Computer Services (ACS) co-signed bid proposals related to certain HISD requests for Schools and Libraries Program (E-rate) funding. Mr. Wong has been indicted in a federal criminal proceeding related to the Dallas Independent School District (DISD). Moreover, Acclaim Professional Services (Acclaim) is alleged to have played a role in the money laundering charges in that indictment. Furthermore, there is evidence that Mr. Trifilio is or was the President of Acclaim.

USAC understands that Lakehills purchased ACS. Any violations of USF program rules associated with the ACS contracts would remain following the transfer or assignment to Lakehills. USAC therefore will continue to hold payments unless and until USAC is assured that the original funding decisions were in compliance with Schools and Libraries Program requirements. USAC will consider information you may wish to provide that would assist in evaluating the propriety of the underlying contracts.

Following is a more detailed discussion of USAC's understanding of this matter.

Background

Questions Raised about the Integrity of the Competitive Bidding Process Underlying Contracts Between HISD and Analytical Computer Services – Micro Systems Enterprises

Certain of HISD's Funding Year 2004 and Funding Year 2005 Funding Request Numbers (FRNs) rely on contracts entered into in response to joint proposals submitted by ACS and MSE. These proposals are co-signed by Frank Trifilio and Frankie Wong. For Funding Year 2004, HISD received commitments from USAC in the amount of \$49.9 million for services to be provided by ACS - MSE. USAC has disbursed \$18.2 million of this amount to ACS.

In January 2007, an article in the press raised questions about whether contracts between HISD and ACS had been entered into in compliance with program rules and as a result, on DATE, I wrote to Mr. Frank Trifilio, President of ACS, asking for information and noting that some of the issues raised in the article, if correct, could reflect violations of FCC rules governing the Schools and Libraries program and could require USAC to seek recovery of some portion of funds USAC has disbursed on HISD's behalf and/or take other appropriate action. I further noted that the issues are also relevant to pending funding requests associated with ACS. I noted that USAC had disbursed more than \$100 million in Schools and Libraries program funding to ACS since Funding Year 1998, and listed the issues raised as a result of the article as follows:

- ACS has/has had close business ties to Micro Systems Engineering a.k.a. Micro Systems Enterprises (MSE), which according to the article was being investigated by the Federal Bureau of Investigation and the United States Attorney's Office.
- The article quoted an HISD board member who raised questions regarding the competitive bidding process, and the relationship between ACS and Frankie Wong, the President and CEO of MSE.
- The article stated that Mr. Trifilio, as President of ACS, donated money to HISD board member campaigns, raising potential conflict of interest concerns.
- The article reported allegations that ACS violated Hewlett-Packard's ethics rules.

I informed ACS that the issues set forth in the article were of substantial concern to USAC and to the general public. To protect the integrity of the program, I requested that ACS address in detail and in writing the issues raised in the article in order to evaluate whether ACS had complied fully with program rules and whether USAC should seek recovery of funds or take other appropriate action. I requested a response within 30 days of the letter, but to date, USAC has not received a response from ACS. Consequently, the questions about the competitive bidding process underlying the contracts remain unanswered by ACS. As a result, USAC continues to have concerns that the underlying ACS contracts do not comply with program rules.

Purchase of Analytical Computer Services by Lakehills Consulting

HISD has submitted documents to USAC showing that HISD approved the assignment of certain contracts from ACS to Lakehills in February 2007 because Lakehills had purchased ACS. HISD informed USAC that persons associated with ACS operate Lakehills. Also in February 2007, Kevin Killebrew, President of Lakehills, contacted USAC requesting information regarding consolidating Service Provider Identification Numbers (SPINs). Mr. Killebrew submitted documentation and the changes requested were made.

These changes did not, however, alter the fact that the original funding approved for the relevant HISD Funding Request Numbers (FRNs) was approved based on contracts HISD had entered into with ACS-MSE and that those contracts are required to be in compliance with FCC rules.

Federal Criminal Indictment of Frankie Wong and Allegations on Money Laundering Regarding Acclaim Professional Services

In May 2007, Frankie Wong, a co-owner and President of MSE was charged in a 16 count federal indictment with, among other things, Conspiracy, Bribery Concerning Programs receiving Federal Funds and Aiding and Abetting, and Conspiracy to Money Launder Instruments. With regard to the money laundering charge, the indictment states that Mr. Wong and others formed Acclaim, which, according to the indictment, distributed Universal Service funds disbursed by USAC to MSE. In the Conspiracy to Money Launder Instruments charge, the indictment alleges various payments by Acclaim supporting that charge.

Documents related to the FCC Form 498 submitted to USAC requesting a SPIN for Acclaim indicate that Frank Trifilio is the President of Acclaim. Additionally, USAC understands that Kevin Killebrew is/was one of the owners of Acclaim.

FCC's Competitive Bidding Requirements

The FCC has promulgated rules governing the Schools and Libraries Program, which are published at 47 C.F.R. §§ 54.500 - 54.523. These rules require a fair and open competitive process. The competitive bidding process is initiated when an applicant submits an FCC Form 470 to USAC for posting on its website. *See 47 C.F.R. § 54.504(a), (b); Schools and Libraries Universal Service, Description of Services Requested and Certification Form 470, OMB 3060-0806 (FCC Form 470).* On the FCC Form 470, the applicant certifies, among other things, that it will comply with the FCC's competitive bidding rules and with applicable state and local procurement and competitive bidding requirements. FCC rules require that the entity selecting a service provider "carefully consider all bids submitted and select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers but price should be the primary factor considered." *See 47 C.F.R. § 54.511(a).* After the applicant enters into agreement(s) with the service provider(s), the applicant submits FCC Form 471 to USAC. *See 47 C.F.R. § 54.504 (c); Schools and Libraries Universal Service, Services Ordered and Certification Form 471, OMB 3060-0806 (FCC Form 471).*

On the FCC Form 471, the applicant certifies, among other things, that it complied with the FCC's competitive bidding requirements and with all applicable state and local procurement laws with respect to the contracts upon which the funding requests are based.

USAC is required to seek recovery of funds when USAC determines that it committed funds in error because the commitment constitutes a violation of the Communications Act of 1934, as amended,¹ or a violation of Commission rules.² Consequently, if the original funding commitments involving HISD and ACS-MSE were in violation of the FCC's competitive bidding rules, USAC would be required to rescind those funding commitments and seek recovery of funds.

Pending Invoices

Currently pending are approximately \$2.7 million in invoices submitted to USAC between June 20, 2007 and September 17, 2007 related to HISD. Lakehills stated in an e-mail from Mark Tucker to USAC, dated 08/09/2007 that:

Currently, Lakehills has submitted invoices for payment totaling \$4,867,008.10 to USAC dating back as far as February 16, 2007 to install cable at Houston Gardens Elementary and McReynolds Middle. As of today, that invoice is 175 days overdue.

These statements are inaccurate. USAC has rejected invoices from Lakehills consistent with USAC's invoice review procedures and Lakehills been notified of the reasons for these rejections as the rejections have occurred. The rejections occurred for the following reasons:

- Customer Billed Date is later than the Invoice date to SLC
- Invalid SPIN
- Payment verification of applicant portion of bill(s) not validated.
- Service Provider did not respond to PIA request
- Service Receipt Not Confirmed

¹ 47 U.S.C. § 254.

² See *Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service*, CC Docket Nos. 97-21, 96-45, Order, FCC 99-291 (1999) (*Commitment Adjustment Order*); *Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service*, CC Docket Nos. 97-21, 96-45, Order, 15 FCC Rcd 7197 (1999) (*Commitment Adjustment Waiver Order*); *Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service*, CC Docket Nos. 97-21, 96-45, Order, 15 FCC Rcd 22975 (2000) (*Commitment Adjustment Implementation Order*). USAC also seeks Recovery of Improperly Disbursed funds when funds were disbursed in violation of the statute or Commission rules, but the original commitment was consistent with the statute or Commission rules.

Mr. John Jancar
September 27, 2007
Page 5 of 6

- Services delivered to entity not on Worksheet
- SPIN no longer valid

Funding Year 2004 Funding Commitments based on HISD's contracts with ACS-MSE

USAC requests the following information from you:

- In your August 7, 2007 e-mail to USAC, you stated, "I do not know what specifically you need in regard to Mr. Wong but I can assure you that he has had no role in either Analytical Computer Services eRate awards or the transfer of these contracts to Lakehills." Please explain the basis for your statement that Frankie Wong had no role in the ACS E-rate awards given that he co-signed the joint ACS-MSE proposals submitted to HISD which underlie the pending invoices.
- HISD informed USAC that persons associated with ACS are now operating Lakehills. It also appears that persons associated with ACS and Lakehills operate or own Acclaim. We understand that Acclaim is closing down and that operations and contracts will be assumed by a successor company. Please provide a detailed description and explanation of the current ownership and operation of Lakehills and of Acclaim and its successor, including whether any of the owners, officers, directors or other persons affiliated with any of these entities have or have had any association with ACS.

After USAC receives the information requested and is able to further evaluate this situation, we will contact you concerning outstanding invoices.

Sincerely,

/s/ Mel Blackwell

Mel Blackwell
Vice President, Schools and Libraries Division

cc: Jeremy Marcus, Chief, Telecommunications Access Policy Division, FCC Wireline Competition Bureau (via e-mail)

Kim Bumstead, Chief Investigator for USF Programs, FCC Office of Inspector General (via e-mail)

Mr. John Jancar
September 27, 2007
Page 6 of 6

Michele Ellison, Deputy General Counsel, FCC Office of General Counsel (via e-mail)

Attachment E

October 3, 2007

Mr. Mel Blackwell
Vice President
Schools and Libraries Division
Universal Service Administrative Company
2000 L Street N.W.
Suite 200
Washington, DC 20036

Dear Mr. Blackwell:

I am responding to your letter dated September 27, 2007 in which you indicated that you had not received a response to your earlier letter dated March 19th. As explained in an email sent last Friday, Mr. Trifilio did answer your first request and a copy of his letter was forwarded with the email. An additional copy of that correspondence is also included with this letter.

Let me now answer your specific request for new information that was not addressed in Mr. Trifilio's response of April 5th.

Explain my statement that Mr. Wong had no role in Analytical Computer Services E-Rate awards when he co-signed for Year 7.

Up until the summer of 2003, Mr. Wong's company, *Micro System Enterprises* (MSE), and Mr. Trifilio's company, *Analytical Computer Services* (ACS) competed for their respective share of the Houston Independent School District (HISD) business. The circumstances changed in the summer of 2003 when HISD commenced a teacher initiative to provide laptop computers to all schoolteachers in the district totaling 15,000 units. HISD *mandated* that ACS and MSE work together to prepare and deliver the computers since neither company alone could purchase, configure and deliver this large amount within a few weeks in the summer of 2003. MSE did perform a portion of that contract by delivering properly configured product and billed for their product and services separately at the same price and terms offered by ACS. The pricing and related terms of the bid were prepared by ACS personnel. After this first instance of ACS and MSE working together, HISD realized that on large contracts two vendors together provided a higher level of service and less risk; and the school district expressed their preference that both companies be represented on the new proposal for Year 7 E-Rate.

Since the magnitude of eRate projects with HISD had increased beginning in 2002, the request by HISD to work jointly with MSE also made sense from a fiscal standpoint. Neither company's financial credit structure could handle the work or the financing alone. Thus, even though ACS prepared the bid and Mr. Wong had no part in its preparation, it was co-signed by him for MSE.

Was Mr. Wong involved in the transfer of contracts to Lakehills?

Mr. Wong had no ownership interest in ACS and has no ownership of Lakehills. He had no role whatsoever in the transfer of ACS contracts to Lakehills. The SPIN has consistently been under ACS with any E-Rate work performed by MSE as a subcontractor to ACS. Effective July 1, 2006, HISD instructed ACS of their decision to immediately cease doing business with MSE. At that time until present, ACS has performed the contract with the assistance of other subcontractors; however, none are associated with MSE or Mr. Wong. Furthermore, Mr. Wong and MSE have always been in a support role regarding contracts and related transactions with HISD as ACS was in a similar role to MSE regarding Dallas ISD.

You asked for a detailed description and explanation of the current ownership and operation of Lakehills and their affiliation, if any, with Acclaim or ACS.

Lakehills merged with ACS in January, 2007 as a direct result of the ACS reseller de-authorization by Hewlett Packard. Lakehills is owned by Kevin Killebrew, Frank Trifilio and Teresa Trifilio. Frank Trifilio was sole owner of ACS and exchanged his ownership interest in ACS for a minority interest in Lakehills. In April, 2007 Teresa Trifilio purchased a small equity interest in Lakehills directly from Mr. Killebrew in order for Lakehills to acquire Historically Underutilized Business (HUB) status and Minority Certification critical to the new Lakehills' overall operations. Since Lakehills did not previously operate in Houston, the Houston branch of ACS along with its employees has been retained by Lakehills. This encompasses both sales and service personnel who have been active on the HISD account for several years. Of note, the Lakehills Houston branch manager, Scott Blankenship was a former ACS employee. I also retained the position of Chief Financial Officer with Lakehills that I had held at ACS. With the exception of a brief transitional period, no employees or consultants retained by Acclaim have been transferred to Lakehills. A contract for billing services to the SLD has been executed by Lakehills with an unaffiliated company that performed some limited functions for Acclaim.

You stated that "Acclaim is closing down and operations will be assumed by a successor company".

Acclaim ceased operations as of December 31, 2006 and there is no separate successor, (operations have been assumed by Lakehills). Acclaim's purpose from its inception was to create a joint venture between major participants in large technology contracts, specifically to provide project management and coordination of work flow among the participating companies. Acclaim was originally formed in 2002 by Frank Trifilio as owner of ACS and primary provider of HP Servers; Jack Yang, Alan Chan, Bill Froechtenicht and Frankie Wong of MSE who specialized in CISCO switches; and Kevin Killebrew, owner of Lakehills Consulting who focused on HP Procurve and APC battery backup power supplies. Another partner was Larry Lehmann, who acted as the

Mr. Mel Blackwell

Page 3 of 3

managing partner and had years of experience overseeing E-Rate programs originally with *DIR* (Texas Department of Information Resources) and then through *Region 4* (Region 4 Education Service Center has the largest student population of 20 state service centers established by the Texas Legislature in 1967.) He also acted as a liaison between the partners and was responsible for project management, oversight of billing, cash management, purchasing and delivery. Certain functions such as billing, purchasing, inventory control and other administrative tasks previously performed by Acclaim and its personnel have since been transferred to Lakehills. While ACS and MSE were competitors at the time (as was Lakehills in certain sectors), they all saw value in pooling their resources to pursue contracts that were larger than could handle on their own. By pooling their capabilities under one management company, these organizations had combined resources along with a combined financial strength to bid successfully against much larger competitors. Furthermore, all companies except Lakehills were minority vendors which assisted the school districts comply with other purchasing requirements.

Since MSE is no longer in business and ACS has merged with Lakehills, Acclaim is no longer necessary. Lakehills has assumed the processing of E-Rate transactions and other functions previously performed by Acclaim.

Conclusion:

I have attempted to clarify the new issues addressed in your letter of September 27, 2007. It is very unfortunate that Mr. Trifilio's response to your letter of March 19, 2007 was somehow misplaced by your office since it answered your other inquiries months ago.

It is difficult to articulate in a letter all of the specific details you may need. Time is crucial to Lakehills and if additional information is desired, we respectfully request a phone conference and / or a personal visit to resolve this matter completely and quickly.

In light of this unfortunate delay and the fact that no one ever indicated that you did not get a response to your first letter, I believe it would be very much in order to resolve these remaining questions promptly. Lakehills has worked valiantly to complete our project commitments to HISD on limited capital without receiving any funding from USAC since February due to this "lost letter". We have honored our commitments and completed our work even though we are overextended financially and cannot survive without payment soon. I respectfully ask that you now honor your funding commitment for these completed projects as quickly as practicable.

Sincerely,

John Jancar
Chief Financial Officer
Lakehills Consulting, L.P.

cc: Jeremy Marcus (FCC), Kim Bumstead (FCC) , Michelle Ellison (FCC)

Attachment F

November 27, 2007

VIA OVERNIGHT DELIVERY AND ELECTRONIC MAIL

Mr. John Jancar
Chief Financial Officer
Lakehills Consulting, LP
4202 Directors Row, Suite 100
Houston, TX 77092

Re: Participation of Lakehills Consulting and Analytical Computer Services in the
Schools and Libraries Program

Dear Mr. Jancar:

The Universal Service Administrative Company (USAC) has evaluated the information provided in your letter dated October 3, 2007, including the information USAC originally sought from Analytical Computer Services (ACS), which you included with your response. Enclosed with this letter is USAC's March 19, 2007 letter to ACS as well as USAC's September 27, 2007 letter to Lakehills Consulting (Lakehills) which explain the issues in detail.

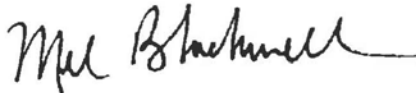
USAC has determined that neither the information provided by ACS, nor the information provided by Lakehills provides USAC with assurances that the competitive process underlying the contracts originally entered into between Houston Independent School District (HISD) and ACS were in compliance with the Federal Communications Commission's (FCC) rules governing the Schools and Libraries program (*see generally*, 47 C.F.R. Part 54, subpart F). Rather, the information provided in your October 3 letter indicates the existence of close and pervasive ties between ACS, Lakehills, Acclaim Professional Services (Acclaim) and Micro Systems Enterprises (MSE) with respect to the current contracts between Lakehills and HISD. USAC is concerned about these ties in light of the May 2007 indictment of Frankie Wong, a co-owner and President of MSE. In that indictment, Mr. Wong was charged with 16 counts of, among other things, Conspiracy, Bribery Concerning Programs receiving Federal Funds and Aiding and Abetting, and Conspiracy to Money Launder Instruments. With regard to the money laundering charge, the indictment states that Mr. Wong and others formed Acclaim, which, according to the indictment, distributed Universal Service funds disbursed by USAC to MSE. In the Conspiracy to Money Launder Instruments charge, the indictment alleges various payments by Acclaim supporting that charge.

As a result of the allegations in the indictment and the ties between ACS, Lakehills, Acclaim, and MSE, USAC is concerned about similar activities with respect to HISD and Galena Park Independent School District (Galena Park), the other school district associated with the held invoices. Did ACS, Lakehills, Acclaim, or MSE offer or give any gifts to any HISD or

Galena Park employees? If so, when were the offers or gifts made, by whom were they made, to whom were they made, and what was each gift and its value? In addition, we have questions about other matters. For example, did any business partners of any of those companies offer or give any gifts to any HISD or Galena Park Independent School District employees? If so, when were the offers or gifts made, by whom were they made, to whom were they made, and what was each gift and its value? If any gifts were given, how did these gifts comport with HISD rules concerning gratuities to employees?

Given the circumstances surrounding this matter and the information available, USAC intends to continue holding these payments to protect the integrity of the Universal Service Fund (USF) from possible waste, fraud and abuse, pursuant to USAC's authority to administer the Schools and Libraries program consistent with FCC rules (*see* 47 C.F.R. § 54.701). USAC will consider any information you may choose to submit, including answers to the questions above.

Sincerely,



Mel Blackwell
Vice President, Schools and Libraries Division

Enclosures

cc: Jennifer Chorpene, United States Department of Justice, Trial Attorney (via e-mail)
Jeremy Marcus, Chief, Telecommunications Access Policy Division, FCC Wireline Competition Bureau (via e-mail)
Michele Ellison, Deputy General Counsel, FCC Office of General Counsel (via e-mail)